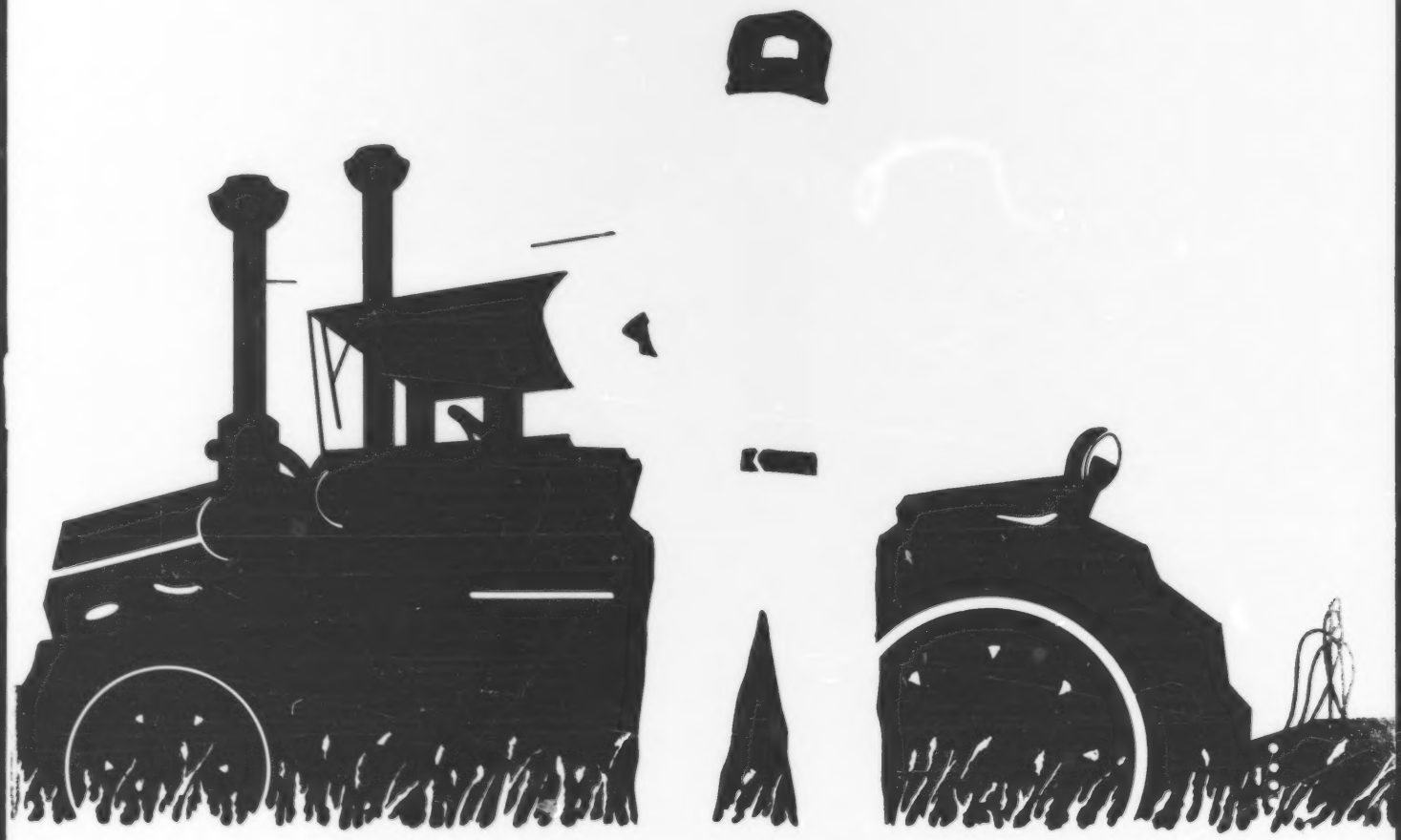
Saskatchewan
Agriculture

Hon. Grant Devine, Premier
Minister of Agriculture

Farm Finance for the Future

M.L.A. Committee Report



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Symposium/Meetings on Farm Finance will Scrutinize Available Options

The provincial government will conduct a two-day symposium and a series of public meetings throughout the province to receive suggestions from industry and producers regarding the farm finance issue.

"We promised to investigate different farm financing options to deal with the problems threatening the health of our agriculture industry.

"The symposium and the public meetings will provide a forum where farm organizations and individuals can openly express their concerns.

"We value highly their input and understand by working closely together, we can overcome the challenges we face"

September 17, 1987

Grant Devine,
Premier and
Minister of Agriculture

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M.L.A. Committee on Farm Finance

Honourable Grant Devine
Premier and
Minister of Agriculture
Room 43, Legislative Building
Regina, Saskatchewan

Dear Premier Devine:

It is my honour to submit to you the report of the M.L.A. Committee on Farm Finance which you appointed last fall.

This report contains a summary of the discussions presented at the symposium on farm finance held in Regina, October 29-30, 1987 along with the views of farm organizations and individual producers offered at the 13 public meetings conducted in November and December, 1987.

Based on information from the symposium and the public meetings the M.L.A. Committee is pleased to present this report and recommendations designed to address this very serious farm finance problem.

We are pleased that some of the recommendations of producers and organizations have already been addressed: increased repayment period for the Production Loan Program and extension of the Counselling and Assistance for Farmers Program and the Farm Land Security Act.

These decisions plus the recommendations contained in this report, clearly demonstrate the government of Saskatchewan's ability to identify and address meaningful solutions to the farm finance problem.

Yours sincerely,

Neal Hardy

Neal Hardy, Chairman
M.L.A. Committee on Farm Finance

SUMMARY OF RECOMMENDATIONS

Debt Financing

The Committee heard that legislative protection for farmers facing foreclosure is necessary to ensure fairness to farmers. The Government of Saskatchewan has responded by extending the Farm Land Security Act for 1988. Foreclosure rates are likely to remain high which requires that the government maintain an effective mediation service to deal with these debt recovery actions.

In addition to the extension of the Farm Land Security Act, the **Committee recommends that further protective measures be taken with respect to the home quarter. This will prevent farmers who lose their land to foreclosure from also suffering the further dislocation associated with losing their homes.** It should ensure a base upon which these farmers could at some point re-establish themselves in farming.

The Committee recognizes that the protection afforded farmers under current provincial legislation is difficult for farmers to understand and utilize and expensive for lenders to comply with. Therefore, **the Committee recommends the amalgamation of the many Acts into a single, comprehensive, easily understood Act.** The **Committee also recommends that a hotline be established where farmers can obtain legal direction in regard to debt protection legislation. Alternatives for extending the protective aspects of farm debt legislation should be considered as part of the amalgamation of legislation.**

The **Committee recommends that further mechanisms be considered to strengthen debt mediation and to facilitate debt set-aside and adjustment arrangements between lenders and farmers.** Such mechanisms should attempt to achieve outcomes which are mutually beneficial to both the lenders and farmers. The Government of Saskatchewan currently guarantees operating and consolidation loans made by lenders to farmers in financial difficulty. The granting of these guarantees should be integrated with a debt settlement process in which both lenders and farmers provide concessions in order to obtain such guarantees. This may mean some integration between the Counselling and Assistance for Farmers Program through which guarantees are given and the Farm Land Security Board which is involved in the debt settlement process.

The Committee heard that many farmers face a severe shortage of cash under current economic conditions. As a result the **Government of Saskatchewan has extended the Counselling and Assistance for Farmers Program for 1988** to provide operating loan guarantees to hard pressed farmers. In addition **the government has given farmers the option to increase the repayment period for the Production Loan Program from 3 years to 10 years.** These measures will greatly assist in easing the cash flow difficulties many farmers are experiencing.

The Committee heard that interest rate stability is important to farmers, but also that rates must be stabilized around an affordable rate. **The Committee recommends that the Government of Saskatchewan impress upon the federal government the need for long term loans of 25 years at interest rates not to exceed eight per cent for both existing and new loans.** In recent years, provincial governments have had to implement interest rate programs from time to time to deal with high interest rates. Interest rates are predominantly a federal government responsibility. Accordingly every effort must be made to ensure that the Farm Credit Corporation reassumes its unique historic role as a supplier of long term low interest rate farm credit.

The Committee recommends that the Government of Saskatchewan consider measures to enable retiring farmers to leave as much of their capital in agriculture as possible. **The Committee recommends that the Government of Saskatchewan introduce a program to provide guarantees on mortgages or agreements for sale supplied by retiring farmers or other individuals to beginning or expanding farmers.**

Equity Financing

The Committee heard a wide range of opinions regarding the acceptability of the equity financing concept. Upon reviewing the discussions which occurred, both at the symposium on Farm Finance for the Future and at the series of public meetings, it is apparent to the Committee that equity financing had some support, but was not perceived to be the total solution to the farm debt problem. The Committee recognizes that there are some farmers who could benefit from equity financing and who may wish to avail themselves of outside equity capital if more were available.

It is also the Committee's observation that many of the concerns with equity financing are not about the concept itself, but rather how the concept is applied. The equity capital organization should not be one central organization but rather should be as decentralized as possible in order to accomplish local ownership, control and sensitivity.

In regard to implementation, it is very clear to the Committee that a number of fundamental criteria which safeguard the interests of farmers must be built into an equity financing initiative if it is to be acceptable and worthwhile to farmers.

The Committee recommends that the Government of Saskatchewan proceed to develop an equity financing initiative on a pilot basis which meets the following requirements:

1. **The farmer's control of the production and marketing decisions must be safeguarded;**

2. **The farmer must maintain long term security of tenure;**
3. **The farmer must have the right to repurchase land from the equity partner according to a timetable which meets the farmer's financial capabilities;**
4. **The equity capital organization should be controlled by Saskatchewan residents with emphasis on local community level participation.**
5. **The equity capital organization should be primarily a privately driven initiative with governments playing a facilitative role by providing start-up equity capital and the regulatory framework required to ensure that the organization meets farmers' needs.**
6. **Governments should not offer tax incentives or direct financial incentives to attract outside equity capital unless farmers are assured of receiving fair and corresponding benefits. Care should be taken to ensure that capital is not discouraged from flowing into agriculture.**

The Committee is convinced of the need for a great deal of information to enable farmers to determine how an outside equity capital partner might assist them. The series of meetings held throughout the province represents a first step in providing that information. It is the Committee's view that continued consultation and provision of information will be imperative to the success and acceptability of an equity finance initiative. **The Committee recommends that an information and consultation process accompany the implementation of the recommended pilot project.**

Income Support

The Committee recommends that the Government of Saskatchewan continue to place priority upon solutions to the problem of low market returns in Saskatchewan agriculture. This will require continued co-operation with the federal government to deal with trade issues in the longer term and to obtain necessary income support in the short term.

I. INTRODUCTION

Agriculture is facing a potential transition that could reshape rural Saskatchewan and have a far-reaching impact on the entire province.

A recent Angus Reid opinion poll indicated that over a quarter of Saskatchewan farmers do not believe they will be in agriculture in three years. Many of the farmers leaving the industry will be forced out. The Farm Credit Corporation estimates that 11 per cent of Saskatchewan farmers are insolvent while an additional 28 per cent are having considerable cash flow difficulty. It is also possible that other farmers, tired of the low market returns and the poor forecasts for the future, will decide to leave the industry.

Declining farm numbers have traditionally been a result of mechanization which demanded that farms become larger to stay efficient. The possible exodus of farmers today is not the result of change to become more efficient. Rather, a large part of an entire generation of farmers could be lost, both efficient and inefficient operations. Farmers who started in the late 1970's and early 1980's have not had enough good years to pay down their debts and secure their future through these difficult years.

Agricultural policy development must accept that the traditional rural structure of Saskatchewan is at peril. The economic factors that have led to this situation and the farm finance options that could stabilize the industry are the subject matters of this report.

Although the agricultural situation is serious, the impact of tumbling product prices would have been more devastating had not the Government of Saskatchewan implemented many new programs.

Government initiatives have assisted the farm community in dealing with natural disasters such as drought and grasshoppers, lowering input costs, dealing with financial difficulties and providing support to the livestock sector to encourage diversification.

Government programs have been developed to strengthen our rural infrastructure and give rural residents access to services urban residents take for granted. In securing the future competitiveness of agriculture, the government has committed $200 million to agricultural research and development through the Agriculture Development Fund.

Current Situation

The following table indicates the farm income situation. A number of important observations can be reached upon examining the information.

Realized net income is significantly higher than its previous five-year average. Even after adjusting incomes for inflation, income in 1987 exceeds the 1985 level.

Gross farm revenues are becoming increasingly dependent upon government programs. In 1981 farm programs accounted for two per cent of revenues, this increased to 28 per cent in 1987.

Table 1: Saskatchewan Farm Income ($000)

	Market Income	+	Government Programs*	=	Total Realized Gross Income	-	Total Expenses & Depreciation	=	Realized Net Income	Net Market Income**	Realized Net Income Deflated (1981 dollars)
1987	3107754		1182552		4290306		3227967		1062339	(120213)	768141
1986	3544920		632207		4177127		3396856		780271	148064	589329
1985	3765845		369765		4135610		3448362		687248	317483	540289
1984	4217989		176646		4394635		3346094		1048541	871895	857352
1983	3978388		26318		4004706		3251138		753568	727250	642978
1982	4032556		37961		4070517		3083799		986718	948757	890540
1981	3980356		70668		4051024		2909377		1141647	1070979	1141647

* Government programs include Western Grain Stabilization payments, provincial stabilization program payments, dairy supplementary payments, deficiency payments and supplementary payments.

** Net market income equals market income less total expenses and depreciation.

( ) denotes negative income.

Analysis of the farm income totals does not explain the increased number of foreclosures in Saskatchewan. Foreclosures have risen steadily over the last six years. The decline in 1986 is attributed largely to the FCC moratorium and the Production Loan Program. Similarly, much of the significant increase in 1987 is due to the termination of the FCC moratorium. Foreclosure would normally have occurred on these accounts in 1986, but were delayed to 1987. The upward trend in foreclosures is likely to continue through 1988.

Table 2: Notices of Farm Land Foreclosure in Saskatchewan

1981-82	196
1982-83	282
1983-84	380
1985	502
1986	358
1987	976

Factors beyond industry income must be examined to explain foreclosures. Industry income with government program payments included may look reasonably healthy, but there is a vast contrast among farmers within the industry.

Two factors have enhanced that contrast over the last few years. The WGSA program has made massive payments to stabilize aggregate farm incomes. For 15 per cent of Saskatchewan producers who do not participate in this program the effects of the downturn in market prices have been more severe. The second factor has been the recent improvement in the livestock sector. Farmers dependent on livestock for all or a portion of their income are not facing as difficult a situation as grain producers.

The following table indicates the total value of farm assets between 1980 and 1986. Farm capital peaked in 1982 at $33.4 billion and has declined to $27.2 billion in 1986. This loss of $6.2 billion has had a significant impact on agriculture.

Table 3: Value of Farm Capital in Saskatchewan

	Total (All Farm Assets) (Billion $)	% Change from Previous Year
1980	27.6	31.4
1981	31.4	13.7
1982	33.4	6.4
1983	32.6	-2.4
1984	31.6	-3.1
1985	28.8	-8.9
1986	27.2	-5.6

Declining asset values do not directly affect a farmer's ability to repay a loan, but lower asset values have had a significant impact on farm foreclosures.

Declining asset values have reduced farmers' equity in their operations. Lenders have become increasingly nervous about the financial viability of many operations. In previous years lenders may have ignored missed or late payments because they were in a secure position with rising land prices. Today, lenders choose to begin foreclosure proceedings.

For many farm operations access to operating credit is becoming a significant problem. In cases where a farmer has limited equity the extension of operating credit is a high risk. Many farmers are finding access to operating credit extremely difficult. This reduces their ability to carry on their farm operations in an efficient manner and could ultimately lead to foreclosure.

Declining asset values have significantly increased the importance of the distribution of debt among farmers. High equity farmers will probably survive the current period of low market returns and declining asset values. However, the one-third of the farmers currently holding three-quarters of the debt may not have the resources to continue farming.

Although the value of farm assets has dropped in Saskatchewan, the value of debt against these assets has continued to increase. In the United States, land values have fallen over 50 per cent between 1981 and 1986 and total debt outstanding has dropped 25 per cent. In Saskatchewan over the last five years asset values have fallen nearly 20 per cent and debt has increased nearly 50 per cent. New mechanisms to cope with the debt must be developed and debt must be brought down to levels the industry can afford.

Table 4: Amount of Agricultural Debt Outstanding, Saskatchewan

	Billions of $'s	% Change
1980	3.0	11.1
1981	3.4	13.3
1982	3.9	14.7
1983	4.4	12.8
1984	4.6	4.5
1985	4.9	6.5
1986	5.8	18.4

Source: Statistics Canada

The Government of Saskatchewan has taken an active approach to develop new alternatives to cope with the problem of farm debt and the impact that foreclosures have on Saskatchewan agriculture.

The Government of Saskatchewan was active in the establishment of the National Agriculture Strategy which was approved by First Ministers across Canada in late 1986. This strategy provided a framework to develop options for farm finance.

A two-stage approach to determine which options were viable for Saskatchewan was initiated.

In October of 1987 Saskatchewan Agriculture held a symposium of farm group leaders, lenders, educators and government. The symposium delegates provided their thoughtful insights on farm finance policy options.

Following the symposium a committee of government MLA's presented options and symposium findings to a series of public hearings throughout Saskatchewan. Individuals attending the meetings provided opinions and raised questions regarding solutions to farm finance difficulties. A number of additional policy directions were suggested. The MLA Committee consisted of:

The Honourable Neal Hardy, Chairman;
Rick Swenson, Vice-Chairman, M.L.A.
John Britton, Member, M.L.A.
Ted Gleim, Member, M.L.A.
Bill Neudorf, Member, M.L.A.

II. SYMPOSIUM SUMMARY

The Government of Saskatchewan held the Farm Finance for the Future Symposium on October 29 and 30 in Regina. The symposium brought together over 200 farm group leaders, members of the financial community, educators, agribusiness and government representatives. The Honourable Eric Berntson, Deputy Premier of Saskatchewan, was the Symposium Chairman.

Dr. Andrew Schmitz, Professor of Agricultural Economics from the University of Saskatchewan and Dr. George Brinkman from Guelph University described the current agricultural environment. Dr. Schmitz highlighted the international market situation. His impression of the world situation was that it is improving. He cautioned forecasters against preaching doom and gloom as these prophecies can often be self fulfilling.

Dr. Brinkman dealt with the domestic situation. His analysis of farm income highlighted a number of trends:

— net farm incomes are continuing to improve through 1986 and 1987;
— the improvement is largely the result of direct government payments;
— real farm incomes after adjusting for inflation have been falling considerably.

His analysis showed that although farming is an important income source, it represents only one third of the total income for Saskatchewan farm tax filers in 1985. For farm tax filers with gross farm income between $50,000 and $74,999, net farm income accounted for just over 50 per cent of total income.

Policy options that have been developed for the National Agriculture Strategy were presented for discussion. These dealt with alternative methods of dealing with debt and with equity financing. Income support was also discussed. Following presentations in these areas delegates split into workshops to discuss the merits of each policy option. Chairpersons from farm organizations reported to the symposium after each workshop.

An overview of the development of the National Agriculture Strategy was presented by Jack Drew, Deputy Minister of Saskatchewan Agriculture.

Debt Legislation, Set-Aside, Operating Loan Guarantees

Background:

The first session dealt with debt moratorium, debt set-aside and operating loan guarantees. The speaker was Ken Rosaasen, Professor of Agricultural Economics from the University of Saskatchewan. Mr. Rosaasen described debt legislation as the "me versus them approach" in solving the farm finance problem. He noted that debt legislation and set-asides have been used at various times throughout history to deal with financial crises in agriculture. The major beneficiaries of these programs are those farmers carrying heavy debt loads. The losers are lenders, possibly taxpayers if incentives are offered and other farmers who face restricted credit. Debt moratoriums would involve government initiatives to restrict farm foreclosures and other debt recovery actions by creditors. Debt set-asides are

usually voluntary arrangements between lenders and borrowers in which payments on a portion of a debt are not made for a period of time. Interest may or may not continue to accumulate on the set-aside amount. Mr. Rosaasen described operating loan guarantees as a method used by government to attract lenders back to the farm sector. Operating loan guarantees are arrangements whereby government will guarantee repayment of an operating loan made by a lender to a farmer.

Workshop Reaction:

Symposium workshop chairpersons reported a variety of points and some divergent views raised in discussions. Some of the main ones are as follows:

- Government assistance programs should not be based too heavily on the assumption of a rapid turnaround in agriculture. The current downturn could last several years. Short term solutions which do not recognize realities cause more problems down the road.
- Debt moratoriums just prolong the agony for farmers with high debt, while debt adjustments require a thorough assessment of long term implications, who would qualify, and how debt repayment would be structured. Producers, policy makers and others in agriculture must start thinking of farming operations in a business sense.
- Debt legislation should interfere as little as possible in the relationship between debtor and lender and should be fair to both parties.
- Attention should be directed not just to those farmers who are in deep financial trouble today, but also to those who may face difficulties in the future.
- Action on policies should be undertaken immediately. A delay may only allow things to get worse. A less than perfect solution now is better than a perfect solution when it is too late.
- Farmers are affected by economic forces beyond their control which justifies some protection for agriculture in difficult financial times.
- Lenders should be given consideration in future appreciation of land values in return for bearing some costs of carrying farmers in the short term.
- There is a basic need for a long term, stable financing system for agriculture. Long term planning is needed which recognizes the range of future economic scenarios.
- We must not become so preoccupied with blaming our agricultural problems on international economic forces that we neglect to take responsibility for controlling our own destiny to the maximum extent possible.
- The debt problem in agriculture is intertwined with the income problem and policies need to reflect this fact.

Interest Rate Stabilization

Background:

Dr. Brian Perkins, Director General of the Farm Development Policy Directorate, Policy Branch of Agriculture Canada spoke on interest rate stabilization. His presentation noted the increased uncertainties that interest rate fluctuations can cause in producers' management decisions. Interest stabilization was addressed as an alternative to reduce this problem. There are various ways to stabilize interest rates including fixed interest rate loans, lenders and borrowers sharing interest rate changes, or interest rates which are tied to farm commodity prices. Dr. Perkins discussed a proposal where farm borrowers and governments pay premiums to insure farmers against rapidly increasing interest costs. Payments under an interest stabilization program would be made to farmers when rates rose above some average of past interest rates.

Workshop Reaction:

Chairpersons reported the following comments during workshop sessions on interest stabilization:

- Stable interest rates are important for farmers but reduced rates are needed as well. Some farmers are unable to pay any interest rate. An interest stabilization program would have to be designed to be actuarially sound. This would require addressing the issue of farmers wanting out of the program when market interest rates fall.
- Entry and exit conditions for the program would have to be defined. An interest stabilization program should not be targeted at any specific group of farmers but available to all farmers on a voluntary basis.
- Non-producer premium contributions would have to be part of an interest stabilization program, as the program would not work with only producer premiums.

Guaranteed Individual Mortgages

Background:

Dr. Perkins also described guaranteed individual mortgages. He noted that the proportion of farm credit extended by individuals has been expanding and in 1985 accounted for 18 per cent of total credit extended. The basic idea behind guaranteed individual mortgages is that farm mortgage credit can be made cheaper or easier to obtain by encouraging potential individual mortgagees with a guarantee against default.

Dr. Perkins described a proposal that would provide a guarantee of repayment to the vendor in such agreements. Some of the important details of such a program include: maximum interest chargeable, eligibility, who pays the premiums and who is responsible in cases of default.

Workshop Reaction:

There was a range of views expressed in workshop sessions on guaranteed individual mortgages. Some of these included the following:

- Guaranteed individual mortgages (GIM) would be of assistance in bringing new money to agriculture, lowering interest rates, and could result in some savings in bypassing financial intermediaries.
- GIM alone cannot address the problem of farmers already burdened with high levels of debt, but could be a useful part of a financing package for agriculture.

- Lenders are better able to tailor mortgage terms and conditions to the specific needs of the individual farmer than an individual providing a private mortgage.
- GIM still embodies the problems associated with debt financing as the farmer's repayment schedule would not reflect the boom and bust of returns in agriculture.
- GIM may not be necessary if the objective is to bring new money into agriculture as there may be adequate debt capital available through traditional lenders.
- GIM would require examination in terms of administrative constraints, tax changes to facilitate it, how debt legislation would apply to individuals providing mortgage loans, and how cases of default would be handled.

Special Income Support Programs

Background:

Farmers being forced out of agriculture are those farmers carrying high debt loads. However, the problem caused by low prices will impact on all producers. A symposium session dealt with alternatives to address farm incomes.

Ted Turner, Executive Director of Prairie Pools, spoke on income support programs. He developed a strong defense for current farm income assistance, including the importance of agriculture as an earner of foreign exchange and in providing inexpensive food. Without assistance, he argued that agriculture would lose many of its most efficient beginning operators.

Mr. Turner argued that deficiency payments must continue to be available to all grain farmers. Income support programs should provide fair returns to efficient farms. However, farmers forced to leave the industry must have access to adjustment assistance. True solutions to the farm problem will be found by reducing world grain subsidies through the GATT negotiations.

Workshop Reaction:

Discussion on special income support programs drew numerous comments during workshop discussion. Some of the main ones are listed below:

- Deficiency payments are the best means of tackling farm income problems in the short term, while other programs are needed to address the problems of farmers with high debt levels.
- Payments should not encourage production of any one type of crop or serve as a production incentive generally. Neutrality must be maintained so as not to discourage diversification of agriculture.
- Without deficiency payments the farm sector will shrink considerably, resulting in greater costs to the economy through higher unemployment and special programs for farmers forced out of agriculture.
- The public needs to be made aware of the seriousness of the problem in the agriculture industry and understand that only a fraction of the price they pay for agricultural products is returned to farmers. There is a need to impress upon the public that they benefit from the resolution of the problem in agriculture.
- There is a need to know how much income will be available to farmers through deficiency payments in order to enable producers to plan their business decisions.
- There is concern that a huge income shortfall will exist as Western Grain Stabilization payments decline in the next two to three years.
- Income support programs are necessary to enable Canada to maintain its share of international grain markets and to avoid a massive transition of farmers out of agriculture.
- The maximum payment per producer on the Special Canadian Grains Program needs to be reviewed.
- There is a need for better forecasting of international markets in order to improve our ability to react to conditions such as we now experience in agriculture.
- There is a need to diffuse the stigma attached to the transition out of agriculture for those farmers with little or no hope of financial viability. Programs like the Canadian Rural Transition Program should be enhanced and talked about in a more positive light.

Equity Financing

Background:

Equity financing is the use of ownership/equity capital to finance the farm. The equity capital may be provided by an off-farm participant. Outside equity participants receive a return which relates to the profitability of the operation, unlike debt capital which demands a fixed payment regardless of the profitability of the enterprise. The farmer carries less debt and consequently less risk through equity financing.

The symposium heard from five different speakers on various aspects of equity financing. Lloyd Quantz, President, Agri-Trends Research, Calgary, focused on the problems inherent in using debt capital to finance a farm operation. The benefits of equity capital and the alternatives for equity capital participation in a farm enterprise were discussed.

William Daye, a partner with Peat Marwick presented a study done by Pemberton Houston Willoughby Bell Gouinlock Inc. and Peat Marwick. The study examined equity financing from the perspective of attracting the investment community.

Gregory Wallace, Manager of Public Affairs, with Credit Union Central presented a proposal that was developed for discussion with Credit Unions.

Dr. Ralph Ashmead, Chief, Research Division, Farm Credit Corporation was one of the first individuals to develop a structured equity financing proposal. Dr. Ashmead identified improved cash flow and most importantly risk reduction as the benefits of equity financing.

John Garland discussed the operation of the Australian Rural Property Trust. The Australian Rural Property Trust has been operating in Australia for a number of years, providing equity capital to farmers choosing this as an alternative. The Trust has been highly successful in attracting investors.

Workshop Reaction:

Workshop chairpersons reported a range of viewpoints regarding equity financing. As well, discussion in the workshops raised a number of questions which need to be addressed on the equity financing issue. The views reported include the following:

- The concept of equity financing is a useful one for Saskatchewan agriculture and should be explored. The fundamental question is what form it should take in Saskatchewan.
- Equity financing could be a way of addressing the intergenerational transfer of farmland and the tremendous problems associated with financing the purchase of farms each generation.
- Equity financing is not a panacea. Equity financing may not solve the problems of high debt farmers. The concept is more applicable to preventing future financial problems than in solving current ones.
- Tax incentives and guarantees by government to encourage equity investors in agriculture are not favoured, yet some form of government involvement may be necessary to get the program started. Tax incentives to investors would create unfair competition for farmland. There should be some attempt to target programs to beginning farmers and farmers in financial difficulty.
- The Farm Ownership Act would have to be relaxed in order to attract sufficient investment capital. Opening investment in farmland to Canadian residents would be acceptable, but not to non-Canadian residents.
- Current returns in agriculture were not seen as greatly conducive to investor interest in Saskatchewan agriculture.
- Equity financing should be used only to finance land and not other farm assets.
- The farmer must maintain management control of the farm.
- An equity finance vehicle should not be controlled by Eastern investor interests.
- Repurchase options for farmers who sell their land to equity investors are important to the success of an equity finance program for Saskatchewan. There was a suggestion however that the chances of some farmers re-acquiring their land may be slim given their financial circumstances.
- There was a suggestion that any equity finance agreement should be directly between the farmer and the equity investors.
- A major challenge is how to deal with the owner-operator tradition in Saskatchewan. There is a need to explore equity financing but caution must be exercised as to how and in what form any program is implemented.

III. FARM FINANCE PUBLIC MEETINGS

The Committee on Farm Finance chaired by Honourable Neal Hardy held public meetings at the following 13 centers across Saskatchewan between November 16 and December 4, 1987:

November 16	Meadow Lake
November 18	North Battleford
November 19	Martensville
November 20	Kindersley
November 23	Prince Albert
November 25	Tisdale
November 26	Watson
November 27	Canora
November 30	Shaunavon
December 1	Swift Current
December 2	Moose Jaw
December 3	Indian Head
December 4	Moosomin

Total attendance at the hearings was nearly 4,000, primarily farmers, but included individuals from lending institutions, government, financing and educational institutions and agribusiness.

The primary function of the Committee was to provide information and to listen to the concerns and the ideas of the people who attended the hearings. Written briefs were received at some meetings and participants were encouraged to send additional ideas to the Committee. Many briefs have been received.

People attending the hearings were presented with information on farm finance through three presentations. A video presentation of the Farm Finance for the Future Symposium presented policy ideas and some of the opinions of symposium delegates. A second presentation was a summary of the program options presented at the symposium with respect to debt financing and income support. The final presentation dealt with equity financing. Upon completion of the presentations, individuals attending the meetings had an opportunity to respond with questions and viewpoints.

The following section explains the options presented at the farm meetings, including debt options, income support, and equity financing. Comments and suggestions made by individuals attending the meetings are also included in each section along with the Committee's recommendations to the Government of Saskatchewan.

A. DEBT OPTIONS

Debt Legislation

Background:

Governments have on occasion introduced legislation that intervened in the debt recovery process during difficult farm financial times. The effect of such legislation would be to alter or delay the creditor's ability to take recovery actions against farmers.

An early example of this type of intervention was **The Debt Adjustment Act** of 1934. **The Debt Adjustment Act** called for the establishment of a board of three government appointed members which was to effect debt adjustment between creditor and debtor. In situations where the board felt the farmer deserved protection, it was empowered to safeguard the farmer. Debt recovery actions against a farmer could not proceed until approval was given by the board.

The **Farm Land Security Act** currently deals with foreclosure of farm land. Enacted in 1984, the Act established the Farm Land Security Board. The Board intervenes in the foreclosure process by imposing a 120 day stay of proceedings. During the stay the Board examines a farmer's financial position and attempts to mediate a solution between lender and farmer. If mediation fails the Board prepares a report to the court stating whether the farmer is viable and if the farmer has made a reasonable effort to meet the debt obligation. This report is the primary consideration of the court in hearing the lender's request for foreclosure to proceed.

A number of additional pieces of provincial legislation are currently in place to protect farmers unable to meet their debt obligations. They include:

1. **The Land Contracts Action Act**
2. **The Limitation of Civil Rights Act**
3. **The Farm Security Act**
4. **The Queen's Bench Act**
5. **The Exemptions Act**
6. **The Provincial Mediation Board Act**

Public Reaction:

The Committee heard representations that the Farm Land Security Board required additional power to do an adequate job in protecting farmers. Currently the primary reason for the Board often being unable to issue court reports favouring the farmer is that it is often very difficult to show viability on low equity farms. In cases where the court report is in the farmer's favour the court almost always rejects the lender's request for foreclosure to proceed.

The Committee heard a large number of comments with respect to legislated write-downs and complete moratoriums. Proponents of these proposals made a number of arguments in their favour. The most important include:

- Government and lenders strongly encouraged farmers to take on loans to expand in the late 1970's and early 1980's. All parties should now be prepared to share in the responsibility when conditions have deteriorated.
- Lenders will experience losses on many loans regardless of what course of action is pursued.
- Agricultural policy should be concerned with maintaining farm numbers at as high a level as possible.
- Allowing a forced exodus of farmers from rural areas will have a significant impact on rural towns and the affordability of the rural infrastructure.
- Moratoriums should be legislated to protect the farmer's home quarter and thus the farm lifestyle.

People who opposed legislated write-downs and moratoriums made the following arguments:

- Individuals who expanded their operations must be accountable for these decisions, they were never forced to expand.
- Legislated write-downs and moratoriums are inherently unfair because they reward farmers who took unwise risks or have made less effort to repay debts while punishing those who approached investments and repayment obligations more responsibly.
- The contractual arrangement between the farmer and the lender will be broken. This is unfair to the lender and to the extent that lenders reduce credit or increase interest rates it is unfair to future borrowers.

The Committee heard others who said that government should take a more active role in informing farmers of their rights under current debt legislation. The point was made that many farmers are unaware of their options. There is an extensive collection of legislation which impacts on the debt recovery process creditors pursue when farmers fail to pay their debts.

Committee Recommendations:

1. *The Committee heard that legislative protection for farmers facing foreclosure is necessary to ensure fairness to farmers. The Government of Saskatchewan has responded by extending the Farm Land Security Act for 1988. Foreclosure rates are likely to remain high which requires that the Government maintain an effective mediation service to deal with these debt recovery actions.*
2. *In addition to the extension of the Farm Land Security Act, the Committee recommends that further protective measures be taken with respect to the home quarter. This will prevent farmers who lose their land to foreclosure from also suffering the further dislocation associated with losing their homes. It should ensure a base upon which these farmers could at some point re-establish themselves in farming.*
3. *The Committee recognizes that the protection afforded farmers under current provincial legislation is difficult for farmers to understand and utilize and expensive for lenders to comply with. Therefore, the Committee recommends the amalgamation of the many Acts into a single, comprehensive, easily understood Act. The Committee also recommends that a hotline be established where farmers can obtain general legal direction in regard to debt protection legislation. Alternatives for extending the protective aspects of farm debt legislation should be considered as part of this amalgamation of legislation.*

Debt Set-Aside

Background:

A debt set-aside program would entail lenders accepting deferments of principal and/or interest payments on a specific amount of debt. Principal payments that are deferred are not forgiven, they are postponed to a point in the future at which the farmer's position has improved. The "set-aside" amount may or may not continue to accumulate interest.

Set-aside arrangements occur today on a voluntary basis between farmers and creditors. A number of alternatives were presented at the public hearings which may encourage this type of approach.

Government could guarantee part of any debt set-aside by the lender. The guarantee would make lenders more willing to accept the increased risk of deferring collection on a financially vulnerable farm.

A second approach to debt set-aside would be for lenders to waive interest payments on the set-aside debt in return for a share of the potential capital gains in land. This approach would re-establish the lender's long term commitment to the farmer while contributing toward an equitable voluntary arrangement between farmer and lender.

Public Reaction:

The Committee heard some favourable response to debt set-aside at the meetings. There was considerable discussion on whether set-asides should be accompanied by the lender writing off a part of the farmer's debt. The feeling was that if conditions improve it would not be beneficial to have saddled producers with an unmanageable postponement of debt. A large set-aside debt would have a significant impact on a farmer's opportunities for growth in the long term.

Some speakers expressed the view that the debt carried on the property should not exceed its market value. These speakers felt that the difference between current debt and market value should be assumed as a lender's loss since, if foreclosure proceeded the maximum the lender could receive would be market value. Utilizing set-asides for debt in excess of market value were seen by some to primarily assist lenders.

The Committee heard from a number of speakers who agreed with the concept of a government guarantee on debt set-aside by lenders. However, other speakers felt that government should establish rules and supervise a debt set-aside program. It was argued that this approach would ensure all producers in similar circumstances would receive similar treatment by lenders.

Individuals opposed to government participation in any aspect of debt set-asides whether they might be guarantees or regulation also voiced opinions. Many of these people felt that debt set-aside arrangements should be worked out voluntarily by lenders and farmers.

Committee Recommendation:

The Committee recommends that further mechanisms be considered to strengthen debt mediation and to facilitate debt set-aside and adjustment arrangements between lenders and farmers. Such mechanisms should attempt to achieve outcomes which are mutually beneficial to both the lenders and farmers. The Government of Saskatchewan currently guarantees operating and consolidation loans made by lenders to farmers in financial difficulty. The granting of these guarantees should be integrated with a debt settlement process in which both lenders and farmers provide concessions in order to obtain such guarantees. This may mean some integration between the Counselling and Assistance for Farmers Program through which guarantees are given and the Farm Land Security Board which is involved in the debt settlement process.

Operating Loan Guarantees

Background:

The current low market prices and declining asset values have made it difficult for many viable producers to access credit. One option governments have utilized to ensure that producers have access to credit is to provide the lender with a guarantee that farmers will meet their obligations.

The Counselling and Assistance for Farmers Program (CAFF) has been in place in Saskatchewan since 1984. The program provides a government guarantee on operating and consolidation loans made by a lender to a qualifying farmer. To qualify a farmer must be deemed viable but must be unable to obtain operating credit from a lending institution. The maximum interest rate that can be charged under a CAFF loan is prime plus one-half per cent.

The Government of Saskatchewan also provided production loans of $1.1 billion to Saskatchewan farmers in 1986 to provide cash short farmers with money to produce their crops. This low interest loan of $25 per acre was to be repaid over 3 years. The principal payment in 1987 was deferred due to continuing financial pressure on Saskatchewan farmers.

Public Reaction:

The Committee heard that the availability of operating money from creditors continues to be tight. Response regarding the general income situation in agriculture indicated that farmers with high debts would find it particularly difficult to obtain operating loans without some kind of assistance. It was also apparent that many farmers are not in a position to repay the production loans made to Saskatchewan farmers in 1986. Continued low grain prices have prevented many farmers from building a cash surplus to repay one-third of their original production loans in each of the next three years.

The Committee heard from individuals who felt that operating loans should be extended at lower interest rates. If interest rates on guaranteed operating loans were reduced this would cause more farmers to access the CAFF program rather than dealing solely through their lending institution.

Committee Recommendation:

The Committee heard that many farmers face a severe shortage of cash under current economic conditions. As a result the Government of Saskatchewan has extended the Counselling and Assistance for Farmers Program for 1988 to provide operating loan guarantees to hard pressed farmers. In addition the Government has given farmers the option to increase the repayment period for the Production Loan Program from 3 years to 10 years. These measures will greatly assist in easing the cash flow difficulties many farmers are experiencing.

Interest Rate Stabilization

Background:

Interest rate stabilization programs would attempt to protect producers from interest rate fluctuations. The increasingly capital intensive nature of agriculture has resulted in greater utilization of debt in the industry. This has left farmers vulnerable to interest rate fluctuations. Interest stabilization

would not address current short term farm finance difficulties, but rather would attempt to provide an environment more suited to long term planning for farmers.

There are two major types of risk farmers face in the area of interest rate fluctuation. The first occurs in situations where a farmer has a floating rate loan. As interest rates change the rate the farmer pays changes. The second risk is that interest rates increase during the period of a loan repayment. When the farmer renegotiates the loan the interest rate may have risen. The public hearings heard presentations on both existing programs and a proposed program to stabilize interest rates.

The Farm Credit Corporation operates a Shared Risk Mortgage Program. This program allows the farmer and the Corporation to share equally in interest rate variability. For example, if interest rates rise four per cent over the year the farmer pays only a two per cent higher rate. The maximum that interest rates can increase to the farmer in one year is two and one-half per cent.

A second farm credit program that has been recently introduced by the Farm Credit Corporation is the Commodity Based Loan Program. Under this program, interest rates can be as low as six per cent and the principal balance of a loan adjusted to reflect current commodity prices. The rationale for the program is that as commodity prices rise and fall a farmer's ability to repay debts increases and decreases.

An option that has been widely discussed is a long term fixed rate mortgage. This option can be attractive to farmers provided that the rate is fixed at an affordable level.

A comprehensive interest stabilization program was also described at the hearings. The program would be similar to commodity price stabilization programs except that the program would stabilize interest rates rather than commodity prices. Under the program farmers and government could contribute premiums into a fund. The fund would make payments to farmers when interest rates exceeded the average of a previous time period (perhaps five years). The fund would be designed to break even over the long term.

Public Reaction:

Speakers argued that money should be provided to farmers interest free for a period of a few years. Others argued that a fixed rate of six to eight per cent be available for the entire term of the loan.

The opposing views to interest subsidies were also heard. Speakers argued that lower interest rates encourage high prices for assets, thus reducing any potential benefit for producers. It was also pointed out that programs which make debt more affordable have encouraged farmers to assume debt rather than looking for equity to finance expansion. The equity could be personal savings, contributions from family members, outside private individuals or an equity institution.

Discussion on interest stabilization indicated fairly broad support for the concept. However, most speakers felt that a stable rate today would not solve the financial dilemma facing agriculture. Had the program been in place in the early 1980s some speakers felt that it would have aided their current position.

Committee Recommendation:

The Committee heard that interest rate stability is important to farmers, but also that rates must be stabilized around an affordable rate. The Committee recommends that the Government of Saskatchewan impress upon the federal government the need for long term loans of 25 years at interest rates not to exceed eight per cent for both existing and new loans. In recent years, provincial governments have had to implement interest rate programs from time to time to deal with high interest rates. Interest rates are predominantly a federal government responsibility. Accordingly, every effort must be made to ensure that the Farm Credit Corporation reassumes its unique historic role as a supplier of long term low interest rate farm credit.

Guaranteed Individual Mortgages

Background:

The primary use of a guaranteed individual mortgage would be intergenerational transfers where the vendor selling land provides a mortgage or agreement for sale to the farmer buying the farm. A guaranteed individual mortgage could protect the vendor in cases where the buyer of a farm property defaulted.

Currently, retiring farmers may not provide the beginning farmer with an agreement for sale because of the potential of losing their retirement fund. A retiring farmer may offer the beginning farmer a low interest rate, if repayment were guaranteed. The individuals making the loans could pay premiums to a program agency. The agency would pay the vendor the guaranteed amount in cases where the buyer defaulted.

Public Reaction:

The Committee heard from many individuals who expressed concern regarding the problems encountered by farmers who want to help their descendants start farming. Concerns were expressed that often a farmer's son or daughter will want to start farming before the parent is ready to retire. A mechanism that would allow parents to assist the descendants begin farming operations without pledging all of their farm assets as security would be beneficial.

In cases where the parent wants to retire at the same time as their descendants want to start farming, speakers generally agreed that guaranteed individual mortgages would be a beneficial option.

Although most farmers with financial problems would not be able to utilize the proposal to solve their immediate problems, guaranteed individual mortgages were viewed as a way of keeping capital in agriculture at a relatively low cost.

Committee Recommendation:

The Committee recommends that the Government of Saskatchewan consider measures to enable retiring farmers to leave as much of their capital in agriculture as possible. The Committee recommends that the Government of Saskatchewan introduce a program to provide guarantees on mortgages or agreements for sale supplied by retiring farmers or other individuals to beginning or expanding farmers.

B. EQUITY FINANCING

Background:

Equity financing is the use of ownership capital to finance the farm enterprise. The context of the current discussions on equity financing is the development of a more structured approach to utilizing the equity capital of outside participants.

Through the years farmers have accessed equity capital through arrangements such as partnerships, farm incorporation and, most common, leasing. Close to 40 per cent of Saskatchewan's farm land is leased rather than owner operated. Developing mechanisms which would give farmers better access to equity capital and which would facilitate outside investors participating in agriculture is the focus of the current discussions on equity financing.

The value of the assets employed on a viable farm today has increased significantly from the early 1970s. Debt financing all of the large capital items is a risky way to operate a farm. This point becomes very apparent when the consequences of land price variations are examined. Farmers with high debts benefitted greatly when land values rose faster than interest rates but now many are watching as their life's savings are disappearing and they are forced out of business as land values plummet.

Current low returns in agriculture highlight the need for financing which is more responsive to the returns in agriculture. The fixed obligations of debt capital have left farmers vulnerable to cyclical downturns. During downturns the amount of capital available to meet repayment obligations is minimal. Nonpayment by the farmer can lead to the loss of the assets.

Equity financing is more flexible to the returns of the operation than debt capital. To be acceptable, equity financing must offer payments sensitive to profitability and must allow the investor to share in both the increases and the decreases in the value of capital assets. As a method of reducing the risk of asset ownership, equity financing offers potential benefits for beginning or expanding farmers.

Retiring farmers could also benefit from equity financing. Equity financing would offer the flexibility to allow a retiring farmer to withdraw equity from the farm operation slowly, as required for retirement needs. Maintaining the industry's capital in this way would reduce the need for industry debt.

Public Reaction:

The Committee heard a large number of comments on equity financing. Although the meetings discussed a number of farm finance options the majority of the speakers focused their comments on equity financing. There was a significant range of opinions.

Some speakers felt that the owner/operator structure of Saskatchewan agriculture was the most efficient in the world and must be maintained. These speakers argued that agriculture without this structure would result in poor soil management, unwillingness to work hard to get the crop seeded and harvested, and generally a perception by farmers that they are really hired hands. Many speakers reinforced the historical context of these comments when they spoke of their ancestors leaving Europe so that they could own land.

Other speakers who supported the owner/operator structure wondered where a farmer's retirement income would come from if land was not owned. They felt that equity financing only means that agriculture must support an additional group, i.e. investors. Questions were raised on whether farmers using equity financing, and thus having reduced or no equity in land, would be able to access credit to operate and to purchase machinery and equipment.

Other speakers thought that equity financing could be beneficial. It was noted that other industries use equity financing extensively. Reducing impediments to using equity financing could provide farmers with an additional financing alternative.

These speakers discussed the potential advantages of equity capital such as; improved liquidity, increased opportunities for growth and less risk. As a voluntary option, these individuals often questioned why others were opposed to an option which could benefit someone else.

A large group of farmers appear non-committal on equity financing. Many felt that because they were in a secure position with no intention of expanding, they had no reason to pursue an additional financing alternative. This supposedly would not rule out equity financing for those who could benefit. Some questioned the need for a formal institution to attract capital when equity capital was, they felt, readily available already.

The Committee heard concerns that an equity corporation would develop into a huge central monolith, insensitive to the needs of local people. Concerns were expressed that equity financing was being pursued to help financial institutions and investors, not farmers. These points reinforced the Committee's commitment to ensuring that equity financing only proceed if it is sensitive to the needs of farmers. The bulk of the questions the Committee heard were from individuals who had concerns about the type of investors who would own their farmland under an equity finance program.

Speakers expressed the opinion that any equity partners would have to provide the following to be acceptable:

- Long term leases sensitive to the profitability of agriculture;
- A repurchase agreement that would not jeopardize a farmer's ability to repurchase land; and
- Management and marketing control must remain with the farmer.

The Committee heard concerns on access to leased properties. Speakers expressed the view that if a farmer leased an entire operation, rather than just a fraction of the farm base as currently may be the case, additional lease protection would be required. A guaranteed lease option of a minimum five years was the minimum acceptable arrangement to some speakers. Others felt that a guaranteed lease to age 65 or even an option to transfer the lease from one generation to the next would be preferred.

Speakers expressed reservations about lease rates insensitive to the profitability of the industry. The point was made that fixed leases are a fixed obligation not unlike debt charges. A return to outside equity capital must vary with

the profitability of the operation. Lease rates sensitive to commodity prices, while not perfect, would be a definite improvement.

The Committee heard from a number of speakers who stressed the need for a strong repurchase arrangement. Two factors would be the repurchase price and who could trigger the repurchase.

Most speakers supported using a third party appraisal for land when it entered the equity company and when it was repurchased by the farmer. Some speakers felt that allowing farmers to repurchase at below this appraised market value would encourage repurchase of assets, and therefore should be considered. One aspect of equity financing that attracted some endorsement was the idea of buying a few shares every year as a method to repurchase assets.

The second issue on repurchase agreements was whether the investor could trigger a land sale. Many farmers expressed the view that if the investor could decide when land is to be sold, the right of first refusal or repurchase agreement would be of minimal value. The minimum farmers appeared willing to accept in this area was a repurchase date some point in the future. On this date the land would be available for repurchase by the original farm owner unless the farmer and the equity institution agreed to an extension of the lease. If the farmer did not repurchase the land the equity institution could consider selling the property to someone else. Options which allowed the farmer to determine when the repurchase was to occur had considerably more support among farmers.

A third aspect regarding the mechanics of an equity institution to which farmers expressed concerns was control of the farm operations. Farmers expressed strong reservations about participating in an equity organization in which there was a reduction in the degree of control of their operations. Farmers were adamant that decisions on crop production and marketing continue to be made by them.

The Committee heard from many speakers who had concerns about investor participation. Frequently asked questions involved the source of the equity investment and the rationale for the investment.

There was a split in opinion between those who felt investments should come from the public or private sector. Some speakers suggested that both options be available to potential farm clients. This would allow farm clients to determine which funding source they were most comfortable with.

Those favouring private sector investment felt that to ensure that an equity institution has the autonomy to make important decisions the motives of the institution must be free of government influence. Accessing private sector capital would expand the capital available to the company. Few of the speakers indicating a preference for private capital felt that it would be appropriate for the equity institution to operate without a clear set of government controls and regulations.

Local investors were clearly the first choice as a source of equity capital. Canadian investors from outside Saskatchewan received less support but still appeared acceptable to some speakers. However, speakers expressed no support for out of country investors. Most speakers indicated that they would not be comfortable with corporate investors.

The second option on sourcing capital for an equity institution is the public sector. Speakers supporting this philosophy indicated that government controls and regulations would be required with private capital to protect farmer interests. Supporters argued that public equity would be a more direct way to ensure government controls are met. Private debt capital could be raised by the equity institution, but the equity or ownership capital would be public.

Individuals supporting public sector ownership were generally sympathetic to the previous Land Bank program. Some of these individuals indicated that obvious problems of the previous Land Bank would need to be solved including the establishment of a better mechanism to determine who would receive leases and establishment of lease rates more closely in line with market rents. As well, the previous Land Bank did not allow incremental repurchase of farm property.

Other speakers pointed out that public sector ownership of farmland and the resulting requirement for government to allocate land and set lease rates is fraught with difficulties and should not even be considered. Many opposed public ownership on a conceptual and philosophical basis.

A number of speakers who currently lease previous Land Bank lands expressed the concern that their land would be rolled into an equity institution and the terms of their agreement modified.

Comments relating to agricultural equity investments also focused on the rationale of the investors. The Committee heard from speakers who questioned whether investor interests would force an equity institution into policies not consistent with the objective of helping beginning or expanding farmers, many of whom are in difficulty. Individuals felt that it would be extremely difficult for farmers facing financial difficulties to access equity financing. Speakers expressed the view that investors would prefer participation with farmers not in financial difficulty.

A number of speakers raised the issue of which assets would be eligible for participation with an equity company. A split opinion, as to what investors would demand, emerged on the issue. Some felt that machinery and livestock should be included. They reasoned that there was less psychological attachment to machinery than land. As well, because many operations are highly dependent on non-land assets, their exclusion would significantly reduce the impact of equity financing.

The counter argument was that including non-land assets would significantly increase the administrative costs of the program. The yearly return investors would demand would need to be significantly higher because of the higher risks. With land there is the potential for capital gain but non-land assets depreciate. Investors would require a higher yearly return on these depreciable assets.

Speakers were nearly unanimous in their rejection of any incentives to attract equity investors into agriculture which would place farmers at a competitive disadvantage in

bidding for land. Others felt that if government had money available to assist agriculture it would be better spent on a program that would benefit them directly. Concerns were also expressed that incentives would drive up land prices and over the long term would hurt most farmers.

Many speakers expressed the belief that investors would be unwilling to participate in an equity company. These concerns focused on the low returns from leasing, the limited potential for capital gains in the short term and the high level of risk (non-payment of leases, continuation of declines in property values, weather, etc.). Although it was recognized that agriculture could be a good investment in the long run it was felt that until conditions begin to improve investors will be hesitant to participate.

Speakers also noted that the stronger the controls protecting farmers the lower the return would be to the investor. The possibility that farmers would pressure government to reduce investor involvement in agriculture when conditions improve adds to investor risk. If prices do not improve from current levels the general consensus was that no financing alternative will be workable on a sustained basis.

Committee Recommendation:

The Committee heard a wide range of opinions regarding the acceptability of the equity financing concept. Upon reviewing the discussions which occurred, both at the Symposium on Farm Finance for the Future and at the series of public meetings, it is apparent to the Committee that equity financing had some support, but was not perceived to be the total solution to the farm debt problem. The Committee recognizes that there are some farmers who could benefit from equity financing and who may wish to avail themselves of outside equity capital if more were available.

It is also the Committee's observation that most of the concerns with equity financing are not about the concept itself, but rather how the concept is applied. The equity capital organization should not be one central organization but rather should be as decentralized as possible in order to accomplish local ownership, control and sensitivity.

In regard to implementation, it is very clear to the Committee that a number of fundamental criteria which safeguard the interests of farmers must be built into an equity financing initiative if it is to be acceptable and worthwhile to farmers.

The Committee recommends that the Government of Saskatchewan proceed to develop an equity financing initiative on a pilot basis which meets the following requirements:

1. *The farmer's control of the production and marketing decisions must be safeguarded.*
2. *The farmer must maintain long term security of tenure.*
3. *The farmer must have the right to repurchase land from the equity partner according to a timetable which meets the farmer's financial capabilities.*
4. *The equity capital organization should be controlled by Saskatchewan residents with emphasis on local community level participation.*
5. *The equity capital organization should be primarily a privately driven initiative with governments playing a facilitative role by providing start-up equity capital and the regulatory framework required to ensure that the organization meets farmers' needs.*
6. *Governments should not offer tax incentives or other direct financial incentives to attract outside equity capital unless farmers are assured of receiving fair and corresponding benefits. Care should be taken to ensure that capital is not discouraged from flowing into agriculture.*

The Committee is convinced of the need for a great deal of information to enable farmers to determine how an outside equity capital partner might assist them. The series of meetings held throughout the province represents a first step in providing that information.

It is the Committee's view that continued consultation and provision of information will be imperative to the success and acceptability of an equity finance initiative. The Committee recommends that an information and consultation process accompany the implementation of the recommended pilot project.

C. INCOME SUPPORT

Background:

Agricultural incomes have historically varied considerably. Agricultural production varies due to weather and pests and product prices are significantly more variable than input costs. Most input prices do not adjust quickly to low farm incomes nor can farmers significantly reduce input quantities without affecting production. This has resulted in extremely unstable farm incomes. A small change in product prices and the resulting small change in overall revenues will result in a significant change in net income.

To reduce the impact of cyclical variations in farm incomes governments have introduced a number of programs. Programs such as crop insurance, livestock and crop stabilization programs have all been developed to stabilize farm incomes.

In 1976 the Western Grain Stabilization Act was passed. WGSA provided an automatic mechanism to make income support payments to grain producers. The voluntary program requires participating producers to pay approximately one third of the cost of the program.

The magnitude of the price decline for grains has caused government to provide additional support to grain producers. A special payout of $1 billion was made to producers in 1987 under the Special Canadian Grains Program and a payment of $1.1 billion was announced for payment during 1988.

Public Reaction:

The Committee heard a number of proposals to change WGSA. They include:

- Allow the WGSA cap to change with commodity prices;
- Widen the eligibility for crops covered by WGSA;
- Modify WGSA so that it does not discourage domestic feeding of livestock;
- Require agribusiness to contribute premiums to the fund.

The most common concern the Committee heard at the meetings was the need for better prices. There was a strong call for a continuation of deficiency payments until prices improve. There appeared to be strong support for basing the payment on cultivated acres rather than seeded acres. Some individuals, while calling for a deficiency payment, argued that targeting of assistance to those in need is necessary if the public is to continue to support income transfers to agriculture.

A small number of speakers did not want deficiency payments. They argued that a farm is a business which goes through cyclical ups and downs. It is during difficult periods that less efficient operators leave the industry allowing the more efficient producers to expand by purchasing assets at low values. It was argued that deficiency payments discourage this transition to lower land values.

Some speakers suggested that if equity financing were encouraged, public support for farm policies would drop because the beneficiaries of income support policies would be seen as investors rather than family farms.

Many speakers cited the cheap food policy of Canada as the chief reason for agriculture's problems. It was felt that if Canadians paid fair prices for their food farmers would not require additional transfers. This point was tempered by others who noted that Canada pays world prices for food and because we use so little of our total production, a made in Canada price for agricultural products would have minimal impact on agriculture.

The Committee heard many speakers express the view that agriculture would not prosper until world prices improve. Many speakers recognized the work of both the federal and provincial governments at trying to negotiate an end to the grain trade war, through GATT and exporter cooperation. However, there was a strong feeling that considerably more must be done, although many recognized that neither Saskatchewan nor Canada alone could achieve this objective.

Committee Recommendation:

The Committee recommends that the Government of Saskatchewan continue to place priority upon solutions to the problem of low market returns in Saskatchewan agriculture. This will require continued co-operation with the federal government to deal with trade issues in the longer term and to obtain necessary income support in the short term.

D. OTHER FINANCE ISSUES

The Committee heard from a number of speakers on the area of taxation. Two common concerns were agricultural property taxes going for education and the Federal proposal to put farmers on the accrual system of accounting.

Other proposals for changes to the Income Tax Act were made. Speakers suggested that a Farm Ownership Savings Plan, similar to the now defunct Registered Home Ownership Savings Plan, would encourage beginning farmers to build equity before entering agriculture. Recommendations to change the Act so that it does not discriminate against beginning farmers taking off-farm employment were made. Some speakers felt that farmers should be exempt from all income taxes for three years.

Proposals to facilitate farm retirements were heard. One proposal was to allow farmers' principal payments on land to be eligible for the Registered Retirement Savings Plan deduction. This would recognize that land ownership is really the farmer's retirement fund.

Farmers also requested the unemployment insurance program be changed to allow farmers improved access to the program. Speakers questioned why fishermen were eligible for unemployment insurance and farmers are not.

IV. SUMMARY

Over the course of the two day symposium, "Farm Finance for the Future" in Regina and the series of 13 meetings throughout Saskatchewan the Committee came in contact with thousands of people with a great deal of expertise and a lot at stake in the agricultural industry. There is a wide range of opinion among those people as to how the financial situation in agriculture should be addressed. By listening to and studying the ideas of participants at the meetings and the symposium the Committee has been able to provide recommendations to the Government of Saskatchewan which the Committee believe will assist the industry to come through some difficult financial times. The recommendations should also contribute toward a stronger agricultural industry in the future.

The impact of a healthy agricultural industry in Saskatchewan is immense. Nowhere in Canada is agriculture more important than in Saskatchewan. Solutions to the farm debt crisis are absolutely essential, but cannot be found through government efforts alone. The cooperation of all groups who rely upon agriculture including farmers, lenders, agribusiness, federal and provincial governments and others will be required. The Committee encourages the Government of Saskatchewan to proceed with implementation of the recommendations contained in this report as part of the Government's role in providing solutions to the farm finance situation.